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In our opinion

Richard B. Laney, editorial page editor, 237-2186

Bank reform proposals would strengthen system

By sending the most comprehensive banking reform legislation to Congress since the 1930s, the Bush administration is trying to strengthen a banking system shaken by more than 800 failures in four years. Clearly, changes are needed.

The package seeks to streamline and toughen banking regulation, to allow banks to compete in more areas, and to bolster the shrinking deposit insurance fund.

Above all, the administration and Congress want to avoid a fiscal disaster like the S&L bailout where the rescue already has reached $80 billion with no end in sight. And the taxpayer is footing the bill.

The Bush plan — which must be approved by Congress — has three major elements:

• **Regulation.** The current number of regulatory agencies would be reduced for more efficient operation. The Federal Reserve would supervise all state-chartered banks and holding companies. A new federal banking agency, under the Treasury, would supervise all national banks and holding companies.

Risky activity at federally insured, state-chartered banks would be restricted. The plan would prohibit direct equity investment in real estate and other commercial ventures — a practice already prohibited at national banks.

Well-capitalized, healthy banks would have less strict regulation, while weaker institutions would be more tightly controlled.

• **Competition.** Banks would be allowed to engage in the securities and insurance business, a practice now prohibited. Commercial and industrial companies would be allowed to own banks. Old restrictions against interstate banking would be relaxed over a three-year period, making it easier for well-funded institutions to open branches in other states.

Though this loosening of the rules would bring more competition, the proposed change won't be cheered by everyone. But innovations in financial services by non-banks have cut banks off from valued customers without giving the banks a way to fight back.

Likewise, local banks won't shout for joy at the possibility of well-heeled giants opening up branch offices in their territory. This could make life harder for some institutions. But consumers should benefit from more competition.

• **Deposit insurance.** The most pressing need is to bolster the Federal Deposit Insurance Corp. fund, which has been seriously depleted by bank failures and is threatening to run out of money. Fees paid by banks to the FDIC would have to be raised, although the ticklish decision of how much may not be clarified for several weeks.

But it seems clear that riskier institutions should be asked to pay higher premiums, while bank owners who invest more of their own capital may get smaller fees and access to wider banking powers.

The plan would return the scope of deposit insurance to its historical purpose — protecting small savers. The $100,000 in deposit insurance would be limited to two savings accounts per person per bank. It wouldn't stop big depositors from spreading accounts around many institutions but might make them more cautious about where they put their money.

Unfortunately, the Treasury backed away at the last minute from a plan that would limit deposit insurance to $100,000 per person, period. That would eliminate the possibility of opening many $100,000 accounts in different banks. But Washington hasn't necessarily heard the last of that good idea, which definitely should be brought back later.

The proposal would remove FDIC's discretion to reimburse uninsured depositors in failed institutions. That generous practice has been all too common. Any future exceptions would have to have significant justification and be approved by the Treasury and the Federal Reserve.

While the reform package has some weaknesses, it ultimately would strengthen the nation's banking system. Congress should move quickly to adopt the plan.